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RENEWED WELCOME THRUST ON CLUSTER DEVELOPMENT

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The Union Government's potential plans to announce new manufacturing clusters in the upcoming budget has evoked considerable interest. These clusters are expected to be strategically located near major infrastructure projects, with the goal of boosting manufacturing growth.

Given the government's increasing capital expenditure on infrastructure, these clusters could play a pivotal role in generating significant employment opportunities and enhancing the manufacturing sector's contribution to India's overall GDP.

In our view, this is a good idea to enhance the competitiveness of MSMEs. The cluster approach has strong theoretical underpinning and robust cross-country empirical evidence, including in India, where firms and industries are part of a holistic system. National clusters are formed by firms linked through vertical (buyer/supplier) and/or horizontal (common customers, technology, etc.) relationships with the main players located in a single nation/state. Michael Porter's definition has been expanded by including institutions like R & D institutions, training centers, and Universities.



Geographical proximity facilitates the transmission of knowledge and the development of institutions. Clustering can encourage division of labor among firms with geographical proximity among numerous competing producers, thereby fostering innovation. A full-service approach to diverse MSME needs requires extending banking services to clusters by adopting a 4-C approach namely Customer Focus, Cost Control, Cross Sell, and Containment of Risk.

Identifiable locations/product clusters developed based on the historical accumulation of skills together with the availability of a low-cost abundant resource endowment, e.g., handloom, carpet weaving, coir, pottery, cane, bamboo, metal, leather. The rising market for processed products, viz., namkeen making, milk processing, etc. necessitates the establishment of related groups of units for simultaneous utilization of by-products.

However, the basic processing function and related infrastructure are mostly under the control of intermediaries and the efforts of the governmental agencies in promoting and assisting the small producers in setting up collective operation of the infrastructural facilities have either been hampered by several organizational problems or characterized by lackadaisical approach and functioning.

What is needed is the removal or reduction of barriers to market access, both by special support in places, where markets are slow to develop spontaneously and by facilitating market participation of the poor through advanced management and marketing methods. Extension and dissemination of information through mass media, technical development research activities, and training programmes must be improved.

Banks adopt a Cluster Approach to lending, ensuring Qualitative Lending with close Supervision by associating with Block/ Cluster/village-level Awareness Meetings and sponsoring Potential Entrepreneurs to participate in Rural Entrepreneurship Development Programmes (REDPs).

In the ultimate analysis, cluster development must be closely monitored and mid-course changes effected to make it more effective.